

## Message Text

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ACTION NEA-09

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TAGS: ELAB, EFIN, IS

SUBJECT: WAGE NEGOTIATIONS

1. SUMMARY: WITH TAX REFORM NOW AGREED, HISTADRUT, GOVT AND EMPLOYERS AND BEGINNING TO EXAMINE POSITIONS ON COST-OF-LIVING ADJUSTMENT DUE JULY AND FURTHER EXTENSION OF COLLECTIVE AGREEMENTS FOR SECOND HALF 1975. WAGE FACTOR IS CRITICAL ELEMENT TO ACHIEVEMENT GOVT ECONOMIC GOALS, AND OUTCOME OF WAGE NEGOTIATIONS WILL HAVE IMPORTANT ECONOMIC IMPLICATIONS. END SUMMARY.

2. HISTADRUT, GOVT AND EMPLOYERS HAVE BEGUN REVIEW OF RESPECTIVE POSITIONS ON WAGE POLICY FOR REST OF 1975. NEGOTIATIONS SHOULD SWING INTO HIGH GEAR BY END OMONTH, WITH FINAL AGREEMENTS REACHED BY MID-LATE JUNE.

3. MOST IMMEDIATE, MAJOR ISSUE IS COST-OF-LIVING ALLOWANCE (COLA) DUE JULY 1. ON BASIS OF CURRENT FORMULA FOR CALCULATING COLA, WORKERS WOULD RECEIVE ROUGHLY 50 PERCENT OF FIRST IL 1,000 BASE PAY. WHILE THIS REPRESENTS TOTAL WAGE INCREASES OF APPROXIMATELY CONFIDENTIAL

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IL 5 BILLION ANNUALLY, ABOUT ONE-FOURTH WOULD GO TO TREASURY UNDER PROPOSED INCOME TAX REFORM MAKING COLA PAYMENTS TAXABLE INCOME. GOVT OFFICIALS HAVE VIGOROUSLY ARGUED AGAINST FULL COLA COMPENSATION USING

CURRENT FORMULA ON GROUNDS OF ITS SEVERE INFLATIONARY IMPACT. EMPLOYERS URGE PARTIAL PAYMENT, POINTING TO ADVERSE IMPACT ON COSTS AND INVESTMENTS IF FULL COLA IS TO BE PAID. EVEN HISTADRUT TOP LEADERS RECOGNIZE THAT ECONOMY CANNOT BEAR SUCH LEVEL OF INCREASED LABOR COST AND BOOST IN PURCHASING POWER. THEY CONCEDE NEED FOR COMPROMISE WITH GOVT PROPOSAL THAT EFFECT OF NOVEMBER DEVALUTION AND OTHER EMERGENCY ECONOMIC MEASURES ON CONSUMER PRICE INDEX BE REMOVED FROM CALCULATION OF COLA PAYMENT. UNDER GOVT PROPOSAL, COLA PAYMENT WOULD BE ROUGHTLY 20-25 PERCENT OF FIRST IL 1,000 BASE PAY, ADDING NEARLY IL TWO BILLION TO NET DISPOSABLE INCOME. HISTADRUT LEADERS BELIEVE THAT NEGOTIATIONS BETWEEN HISTADRUT AND GOVT SHOULD PRODUCE COMPROMISE OF ABOUT 30-35 PERCENT.

4. ABILITY OF HISTADRUT TO MAKE COMPROMISE ON COLA PAYMENT IS GREATLY ASSISTED BY FACT THAT MAJORITY OF WOEKERS WILL HAVE MORE TAKE HOME PAY IN JULY AS RESULT OF TAX REFORM. THIS ADDITONAL PAY, HISTADRUT OFFICIAL TOLD EMBOFF WILL PARTICALLY OFFSET LOSS IN COLA AS RESULT

EXTRATCTION OF PART OF INFLATION FROM CPI.

5. WITH COLA TO BE TAXABLE IN JULY , HISTADRUT HAS PROPOSED RAISING CELING ON COLA PAYMENT FROM IL 1,000 BASE PAY TO IL 3,500 - IL 4,000 GROSS PAY. FORMULA FOR CALCULATING COLA WILL BE ADJUSTED SO THAT NET TAKE HOME PAY AFTER TAXES WILL BE ABOUT SAME AS OLD CEILING OF IL 1,000 WHEN COLA TAX EXEMPT. EXACT CEILING AND FORMULA WILL BE SUBJECT TO HISTADRUT -EMPLOYER NEGOTIATIONS.

6. IF COLA FORMULA CAN BE WORKED OUT TO HISTADRUT'S SATISFACTION, AND TAX REFORM INTRODUCED BY JULY 1, HISTADRUT LEADERS HAVE STATED THAT THERE WILL BE NO PROBLEM EXTENDING CURRENT WAGE CONTRACTS  
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WITHOUT CHANGE THROUGH DECEMBER, 1975. THEY MAY, HOWEVER, CONDITON THIS ON GOVT PROMISE OF NO NEW INDIRECT TAXES FOR 1975, OR SOME COMPROMISE AGREEMENT ON VALUE ADDED TAX (VAT), WHICH GOVT URGENTLY NEEDS TO INCREASE REVENUE, PARTICULARLY IN VIEW IL ONE BILLION ESTIMATED LOSS IN REVENUE DUE INCOME TAX REFORMS.

7. HISTADRUT TO DATE HAS TAKEN NO OFFICIAL POSITION ON VAT. IT REGARDS THE TAX AS REGRESSIVE, BUT CONCEDES NEED FOR IT. HISTADRUT STUDY GROUP FAVORS TWO RATES, WITH LOWER RATE FOR FOODSTUFFS, WHILE GOVERNMENT STRONGLY PUSHES SINGLE RATE. HISTADRUT SENIOR LEADER PRIVATELY CONFIDED TO EMBOFF THAT HE BELIEVES HISTADRUT WILL

AGREE TO THREE OR FOUR PERCENT RATE, WHILE GOVT,  
WE UNDERSTAND, HAS BEEN CONSIDERING TEN PERCENT. HISTA-  
DRUT OFFICIAL ALSO CLAIMS THAT SENIOR TAX OFFICIALS  
PRIVATELY DOUBT WHETHER VAT WILL BE INTRODUCED AS EARLY  
AS OCTOBER, AS FINMIN HAS PROMISED. HE DOUBTS IF IT WILL  
BE INTRODUCED BEFORE EARLY 1976.

8. IN RECENT DISCUSSION WITH EMBOFF, ECON ADVISOR TO  
MINFIN PRESENTED BASICALLY SIMILAR ASSESSMENT OF DEVELOP-  
MENT AND OUTCOME COLA NEGOTIATIONS. HE WAS LESS CONFI-  
DENT THAN IN PAST ABOUT INTRODUCTION VAT AS EARLY AS  
OCTOBER.

9. COMMENT: WITH GOVT STAKING BRUNT OF SUCCESS  
OF ECONOMIC PROGRAM ON WAGE RESTRAINT POLICY AND INCREASED  
TAXES, OUTCOME OF WAGE NEGOTIATIONS WILL BE A KEY FACTOR  
IN DETERMINING COURSE OF DEVELOPMENT OF ECONOMY IN SHORT  
TERM. IF GOI SUCCEEDS IN HOLDING COLA PAYMENTS TO  
REASONABLE LEVEL, WHILE REFORMING INCOME TAX SYSTEM  
CONCURRENTLY, IT WILL BE A SIGNAL ACHIEVEMENT FOR  
RABIN GOVERNMENT.  
VELIOTES

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